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SENSITIVE  
SIPDIS

F/NEA: REBECCA WEB, NEA/RA: JOE SCOVITCH,  
NEA/ARP: ANDREW MACDONALD, DEPT PASS TO USTR FOR JASON  
BUNTIN

E.O. 12958: N/A  
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SUBJECT: YEMEN UNPREPARED FOR LONGTERM GLOBAL FINANCIAL  
CRISIS FALLOUT

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[1](#)B. 08 SANAA 1817

[1](#)1. (SBU) SUMMARY: The global financial crisis has directly affected the public sector, while indirectly affecting the private sector in Yemen. While the ROYG has responded in the short-term by cutting disbursements to the budget, a long-term solution to the crisis remains elusive. The ROYG is unprepared to deal with the speed and extent of the global financial crisis.

GLOBAL FINANCIAL CRISIS IMMEDIATELY AFFECTS PUBLIC SECTOR  
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[1](#)2. (SBU) Declining oil prices caused by the global financial crisis have directly affected governmental revenue in Yemen, according to Minister of Finance Noman Alsuhaibi. (Note: 75 percent of ROYG revenue comes from oil. End note.) The 2008 budget was set at a price of USD 55 per barrel. Alsuhaibi told ECONOFF on March 14, however, that the price is now down to USD 40 per barrel. This has forced the ROYG to reduce expenditures. Although in January, the ROYG claimed to have a program of reducing the budget by 50 percent, the actual reduction was 3 percent according to World Bank Senior Economist Ali Alabdulrazzaq. The ROYG is "saving money" by delaying disbursements, according to Hisham Sharaf Abdallah, Deputy Minister for International Cooperation at the Ministry of Planning and International Cooperation (MOPIC). In addition, Ibrahim Alnahari, Sub-Governor at the Central Bank of Yemen (CBY), told ECONOFF on March 14 that the deficit is already up to 11 percent, instead of the predicted 7 percent.

[1](#)3. (SBU) In the short term, the private sector has largely escaped the global financial crisis. Yemeni banks are generally not tied to the financial world outside of Yemen, and very few have investments abroad. Bankers and ROYG officials alike continue to laud the lack of a stock market in Yemen, which spared the economy from the global downturn in stock trading.

LONGER TERM PLAN REMAINS SHORT-SIGHTED  
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[1](#)4. (SBU) Despite escaping the short-term effects of the global financial crisis, Yemen will eventually be affected. Specifically, the global financial crisis will probably cause a reduction in Foreign Direct Investment (FDI) and remittances from abroad. It could reduce development aid from donors. In addition, the lack of international competitiveness of the Yemeni banking sector will further

isolate the sector. Chairman of Shamil Bank of Yemen and Bahrain, Ahmed Bazara, told ECONOFF on March 15 that Yemeni banks have had trouble in their relations with regional and international banks since October 2008. Even in regional banks with Yemeni branches, the volume of work has decreased. Omar Ibrahim Al-Sous, the Yemen Area Manager for the Arab Bank, told ECONOFF on March 15 that regional banks are limiting loans. As countries around the region (and world) retreat to their own economies, the Yemeni economy will struggle to grow.

15. (SBU) Across the ROYG, government officials do not have a long-term plan for handling the global financial crisis. When pressed, they suggest instituting budget cuts, implementing a General Sales Tax (GST), widening the corporate tax base (while decreasing the tax from 35% to 20%), and generating other sources of revenue such as mining, fisheries, and tourism as options. (Comment: Budget cuts, however, are only a temporary solution, according to visiting U.S. Department of Treasury officials. Broadening of the tax base will be difficult to implement comprehensively and subject to corruption. Mining, fisheries, and tourism will all require investment from abroad, which will be limited in a post-global financial crisis world economy. End comment.) Yemen Liquefied Natural Gas (YLNG) is repeatedly identified as a possible source of revenue by government officials and the private sector. The estimated USD 300 million income from gas, however, will be a drop in the bucket compared to the USD 4 billion that Yemen once earned from its annual oil exports. Real ROYG commitment to the diversification of the economy remains elusive.

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16. (SBU) COMMENT: While the global financial crisis makes it easy to shift the blame for economic problems away from the government, the ROYG remains responsible for problems with the internal budget. The ROYG's inability to diversify sources of revenue reveals the government's unpreparedness for long-term global financial crisis fallout. The ROYG continues to move slowly, hesitantly, and without central direction in managing its finances in response to the global financial crisis.  
BRYAN